



The Centre for
**PUBLIC AGENCY
SUSTAINABILITY REPORTING™**

Sustainability Reporting – How Applicable to the Public and Private Sectors?

Phil Hughes

Director, Centre for Public Agency Sustainability Reporting™

9 March 2007





Presentation Outline

- What is Sustainability Reporting?
- Brief History and Uptake
- Applicability – Benefits and Costs
- Selected Examples



Centre for
**PUBLIC AGENCY
SUSTAINABILITY REPORTING™**

A collaboration of –





The Centre

- Global mission to improve the performance of public agencies through the practice of sustainability reporting
- Builds capacity in public agencies and facilitates the development of best practice
- Launched in March 2005 and incubated in Melbourne by ICLEI-A/NZ
- Core focus on capacity building, technical assistance, applied research and promotion and development of reporting



What is Sustainability Reporting?

- Sustainability reporting involves measuring, accounting and disclosing an organisation's economic, environmental and social performance to advance sustainable development
- Sometimes referred to as triple-bottom-line reporting, corporate reporting, CSR reporting, non-financial reporting or similar



‘Typical’ Reporting Disclosures

- Strategy and Analysis
- Organisational Profile
- Report Parameters eg Scope and Boundaries
- Governance, Commitments and Engagement
- Management Approach
- Economic, Environmental and Social/Cultural Performance Indicators
 - Organisational indicators
 - Public policy indicators
 - Contextual or SOE indicators
- Assurance and Verification



Where did it come from?

- Sustainability reporting emerged in the private sector in the late 1980s/early 1990s
- A response to demands from shareholders, communities, employees and NGOs for more information, accountability and transparency
- Many leading international and Australian companies are undertaking reporting
- Increasingly, public agencies and NGOs are looking to take up sustainability reporting



Financial Accounting

“The financial accounting system has served us well; but the system still struggles to fully capture and describe the value within modern businesses. In Westpac’s case, for example, fully 70% of the value assigned to Westpac by the market is not captured in the traditional financial measures. Employee commitment, occupational health and safety, workplace diversity, governance and leadership, customer satisfaction, product and service quality, brand strength, environmental impacts, the quality of relationships with stakeholders, and so on, are all critical to our longevity. But they currently have no place on a traditional P&L and balance sheet.”

Source: David Morgan, CEO Westpac, 28 June 2006



Al Gore, GRI G3 Conference 2006



“ ‘You get what you measure’ is an old saying from the new wave of business management.”

“... if the only tool we use to measure what is valuable and important is a price-tag, then those things that don't have price-tags begin to seem unimportant”

“... movement towards more transparency and disclosure is absolutely essential, not only in order to include these other values but also important to assist in a fundamental shift away from short-term analysis to long-term analysis”



Number of Sustainability Reporters

- Number of Sustainability Reports produced by the top 500 organisations (incl. listed companies) in Australia:
 - 2005: 119 companies
 - 2000: 65 companies
 - 1995: 6 companies
- Number of Sustainability Reports produced by the top 100 listed companies in 2005:
 - Australia: 23%
 - Japan: 81%
 - United Kingdom: 71%
 - Average (16 countries): 41%



International Developments

- France – mandatory environmental and social reporting for publicly-listed companies
- Germany – new legislation extends reporting duties of German companies to non-financial performance indicators
- Japan – legislation requires “specified entities” to publish an environmental report every year
- UK listed companies required to provide a narrative within their annual report on the company’s strategies, performance and risks
- UK sustainable development reporting by departments



Australian Developments

- Parliamentary Joint Committee on Corporations and Financial Services report on corporate responsibility: managing risk and creating value (June 2006)
- ASX Corporate Governance Council reviewing disclosure requirements including for sustainability reporting (Nov 2006)
- Corporations and Markets Advisory Committee report on corporate social responsibility (Dec 2006)
 - Important role for Government in leading by example, providing information and supporting private sector approaches



Principles of Good Corporate Governance and Good Practice

- **Principle 3: Promote ethical and responsible decision-making.** Companies should actively promote ethical and responsible decision-making.
- **Principle 7: Recognise and manage risk.** Companies should establish a sound system of risk oversight, risk management and internal control.



IAG Response

“Organisations cannot evolve to become ‘sustainable’ by simply ‘bolting’ on some new processes, writing a sustainability code, and then proclaiming that they are a sustainable organisation. It requires an extensive rethinking of not only what the organisation does, but how and why it does these things. It needs to be integrated within the company purpose, goals, strategy, processes and culture. It is only through this process that a company can start to develop a sound and mature sustainability/CR understanding, commitment and framework.”

Source: IAG Submission to ASX 2007, p. 6



Key Benefits (Australia)

Key benefits	% citing benefits
• Reputation enhancement	86%
• Ability to benchmark performance	68%
• Operational and management improvements	64%
• Gain confidence of investors, insurers and financial institutions	59%
• Capacity to recruit and retain excellent staff	47%

KPMG Survey 2005



Benefits of Reporting

‘... include improved financial performance (there is a growing body of empirical evidence that indicates a positive link between social and financial performance), enhanced stakeholder relationships, improved risk management because of an increased understanding of non-financial risks, as well as improved investor relations (institutional investors are increasingly focusing on non-financial performance when they make investment decisions, and there is a global increase in ethical investment funds).’

Source: KPMG Global Sustainability Services and United Nations Environment Programme (UNEP) 2006



Value of Sustainability Reporting

- Helps attract ethical investment funds
- Helps in attracting talented staff from generations Y and X
- Helps win business – won business against other companies that have not had the same focus on sustainability
- It's an opportunity to tell the whole story about the business
- Helps build relationships with stakeholders
- Helps improve governance structures
- Commits the organisation to higher standards of corporate behaviour
- Increases transparency and evidence of good corporate citizenship

Source: The Association of Chartered Certified Accountants (Australia) 2006



City of Melbourne Sustainability Report 2005-06

“Sustainability reporting turns the spotlight on our key issues and leads to more inclusive, responsible, informed and engaged decision making. Information relating to our performance can also be integrated into Council’s planning and management activities, leading to better priority setting, planning and resource allocation in the future.”



Encouraging Creativity and Innovation

“Yesterday’s risks are mutating into tomorrow’s opportunities for value creation. Leadership companies – including BP, BT, GE and Philips – are shifting the focus of their sustainability strategy towards a more progressive and entrepreneurial approach that seeks to identify opportunities for strategic innovation...”

Source: SustainAbility, UNEP and Standard & Poor’s
2006



What are the Challenges?

- Determining the appropriate scope and coverage of reporting
- ‘Managing’ different reporting requirements
- Establishing reporting systems and obtaining quality data
- Obtaining buy-in at the board, council and senior management level
- Embedding reporting within an organisation
- Using reporting to achieve change



Key Impediments (Australia)

Key impediments	%
• Cost and resource constraints	78%
• Additional resources required to a reporting framework	54%
• Cost of external verification	41%
• Availability of indicators	37%

KPMG Survey 2005



Reporting to Achieve Change

“As an important element of a sustainability management program, reporting is clearly not only an exercise in accountability; the process also fuels learning, change and innovation”

“The key question is therefore not ***whether*** sustainability reporting will become relevant, but rather in what ***shape or form*** reporting will be most useful”

Ernst Ligteringen, Chief Executive, GRI, 2006



Closing Points

- Sustainability reporting is an essential management tool for enhancing accountability, transparency and engagement, and addressing sustainability within any organisation
- Sustainability reporting helps measure, track and improve internal and external performance, promotes good governance and advances sustainability
- To maximise the benefits, it is essential to integrate reporting with strategic planning, operations and communications
- The challenge is for leading and innovative companies and public agencies to advance reporting